

**SALES AND USE TAX REVIEW COMMISSION
RECOMMENDATION PURSUANT TO P.L. 1999, C. 416**

BILL NUMBER:

A-1859

DATE OF INTRODUCTION:

February 21, 2002

SPONSOR:

Assemblyman Rooney

DATE OF RECOMMENDATION:

April 30, 2002

IDENTICAL BILL:

COMMITTEE:

Assembly Environment and Solid Waste Committee

DESCRIPTION:

This bill would provide a seven-year sales and use tax exemption on Generation 4 equipment or upgrades of equipment purchased by dry cleaning businesses.

ANALYSIS:

This bill exempts from sales and use tax, receipts from sales of Generation 4 dry cleaning equipment or a subsequent generation of equipment, or equipment and apparatus necessary to convert or retrofit existing dry cleaning equipment, for seven years after the effective date of the proposed act. It further requires the Director of the Division to adopt rules and regulations as needed to identify equipment that shall qualify for exemption.

The main objective of the bills seems to be to encourage dry cleaning owners/operators to convert their equipment so as to make it less hazardous to the environment. Generation 4 equipment is promoted to be more environmentally friendly by reducing the amount of toxic chemicals released into the air resulting in diminished health risks to both dry cleaning customers and employees.

As a matter of policy, this Commission does not support the use of tax exemption legislation as a tool for encouraging socially desirable behavior. The Commission prefers sales and tax legislation to be more "neutral" in its impact on the behavior of vendors and consumers. Even if this exemption is intended to serve a socially useful purpose by promoting the use of less environmentally harmful equipment, the Commission does not favor using tax legislation as a social, political, or environmental policy tool.

It is not sound tax policy to provide tax exemptions as a means of compensating regulated businesses that must incur certain expenses in order to comply with federal or state imposed pollution-control requirements. Such legislation favors environmentally friendly industries and opens the door for other environmentally conscious groups and organizations to request exemptions for other types of pollution abatement equipment. The effect that an exemption may have on encouraging positive social behavior would be miniscule at first, since the bill proposes that only those businesses who do not receive financial assistance in acquiring and installing the required equipment, would benefit from the exemption.

The bill would mandate that the entire dry-cleaning industry operating within the State, upgrade to the Generation 4 equipment. This exemption is too restrictive in that it prohibits the sale of equipment other than the Generation 4 that may be just as effective in reducing the emission of toxic substances. Such specialized treatment for a specific stage of equipment upgrade may also lead to aggressive lobbying for similar tax exemptions on purchases of other levels of equipment upgrades such as Generation 1, 2 or 3 dry cleaning equipment.

The enactment of this new tax exemption provision would further alter the broad-based nature of sales and use tax. A broad-based tax, imposed with limited exemptions on a wide range of transactions, is easy to understand and administer, and is generally perceived as economically neutral and fair. When imposed at a fairly low rate, the burden, per transaction, on the individual taxpayer, is relatively small, but the cumulative revenue generated can be enormous. The loss of revenue to the State could be substantial.

RECOMMENDATION:

The Commission does not recommend enactment of this Bill.

COMMISSION MEMBERS FOR PROPOSAL: 2

COMMISSION MEMBERS AGAINST PROPOSAL: 3

COMMISSION MEMBERS ABSTAINING: 0

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